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October 28, 2013

BY ELECTRONIC FILING
Marlene H. Dortch, Secretary
Federal Communications Commission
445 Twelfth Street, SW
Washington, DC 20554

Re: *Connect America Fund* – WC Docket No. 10-90
Notice of *Ex Parte* Communication

Dear Ms. Dortch:

On Thursday, October 24, 2012, Dave Blessing of Parrish Blessing and Associates and I, both representing Alaska Communications Systems ("ACS"), met with Carol Mattey, Steve Rosenberg, Amy Bender, Katie King, Talmage Cox and Ian Forbes of the Wireline Competition Bureau concerning the above-captioned proceeding. The following representatives of ACS participated in the meeting by teleconference: Leonard Steinberg, Ruth Willard, Bill Kositz, and Dale Patrick, all of ACS, as well as Richard Cameron and Tom Meade, consultants to ACS.

In this meeting, ACS focused on aspects of the Connect America Cost Model ("CAM") that should be adjusted to more accurately capture Alaska-specific costs and circumstances. The enclosed issues list was distributed to those attending the meeting, and summarizes the points raised by ACS. Additional detail is provided below.

The Model Should Incorporate A Reasonable "Take Rate" For Alaska

ACS described the importance of adjusting downward the 80% take rate used in the model and lowering the support benchmark for Alaska. It is unrealistic to expect ACS to achieve 80% penetration for broadband when ACS, unique among price cap carriers, faces a subsidized competitor through much of its Alaska service territory.

When the Commission established Phase II of the Connect America Fund ("CAF"), it concluded that "increased support to areas served by price cap areas" is warranted to promote universal availability of voice and broadband services for consumers residing in price cap territories.[1] The Commission ruled that model-based

[1] *USF-ICC Transformation Order,* 26 FCC Rcd 17663, para. 159. Though the Commission noted that the full $1.8 billion budgeted for CAF Phase II support would not

support would be offered for a fixed period of time to serve areas above the cost benchmark (and below the "extremely high-cost benchmark") provided they are unserved by an unsubsidized competitor.[2] That is the case in ACS service areas.

In creating this distinction between price cap areas "served by an unsubsidized competitor" and those that are not, the Commission distinguished between, on the one hand, areas where market forces already were delivering affordable broadband, and on the other hand, areas where market forces do not yet ensure the provision of broadband services meeting FCC performance requirements and subsidies still are needed.[3] In ACS's territory, there simply is no evidence that fixed high-speed broadband and voice services meeting the Commission's performance requirements can be provided without ongoing federal high-cost support. In this type of area, therefore, the Commission wisely determined that price-cap carriers such as the ACS LECs should be eligible for CAF Phase II support. The presence of a subsidized competitor, if anything, underscores the challenges ACS faces in undertaking the high-cost investment required to meet the Commission's CAF Phase II performance standards.

<u>The Commission Should Adopt A 10 Year Build-Out Schedule for Alaska</u>

ACS reiterated that it will require ten years to complete the mandatory statewide build-out under CAF Phase II, in light of the significant number of locations to which ACS would deploy broadband, the short construction season, and material supply and labor constraints in Alaska. To the extent that granting this relief requires a waiver or rule change, ACS believes that just cause has been shown.

<u>The Model Should Incorporate Alaska-Specific Undersea Cable Costs</u>

For reasons that ACS already has documented in this proceeding, the CAM undersea cable module continues to understate the forward-looking cost of constructing

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necessarily go to price cap carriers, "the CAF is not created on a blank slate, but rather against the backdrop of a decades-old regulatory regime" including state carrier-of-last-resort obligations, and therefore each price cap incumbent LEC would be offered CAF Phase II support for five years "in exchange for a commitment to offer voice service across its service territory within a state and broadband service to supported locations within that service territory, subject to robust public interest obligations and accountability standards." *Id.,* para. 166.

[2] *USF-ICC Transformation Order*, para. 156 ("The Commission will offer each price cap ETC a model-derived support amount in exchange for a commitment to serve all locations in its service territory in a state that, based on the model, fall within the high-cost range and are not served by a competing, unsubsidized provider").

[3] *See, e.g., USF-ICC Transformation Order*, para.116 (CAF Phase II will direct universal service funds "to those price cap areas that are unserved through the operation of market forces").

and operating undersea fiber-optic cables linking Alaska to the nearest Internet Access Point in the Lower 48 states. First, the model should include the costs of a spur to Juneau and additional landing points in the Kenai peninsula, reflecting the realities of laying cables in Alaska. Second, the amount of the undersea cable costs allocated overall to delivery of residential voice and broadband traffic by ACS should be 50%, not 34%, as explained in ACS's previously filed pleadings. Third, the model fails to account for operating costs that are unique to undersea cables, applying the same annual charge factor that it uses for terrestrial middle-mile fiber, which is significantly less costly than undersea fiber to operate and maintain.

Other Matters

ACS requests that the Bureau instruct CostQuest to incorporate the Alaska-specific plant mix (which includes more underground and buried than aerial cable), hard rock soil type, and 10% CapEx adjustment in the next run of the model.

The model also incorrectly categorizes ACS as a "medium" sized carrier – as ACS has explained, ACS should be classified as "small" sized, and its operating expenses adjusted accordingly.

The Commission has acknowledged that the costs and challenges of deploying high-speed broadband networks are significantly greater in Alaska than in the rest of the nation. ACS appreciates the work the Bureau has done on the model, and encourages the Bureau to continue to examine the location-specific cost and network information that ACS has furnished. In this way, the CAM can be adjusted to capture location-specific costs for Alaska.

Please direct any questions concerning this matter to me.

Very truly yours,

/s/
Karen Brinkmann
Counsel for ACS

Enclosure

cc: Carol Mattey
Steve Rosenberg
Amy Bender
Katie King
Talmage Cox
Ian Forbes